

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 SP-02 USIA-06 AID-05 EB-08
NSC-05 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
SIL-01 L-03 H-01 PA-01 PRS-01 NEA-10 IO-13 /104 W
-----160124Z 101830 /73

R 150734Z APR 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 8482

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USADB

FOR NAC AGENCIES

PASS TREASURY FOR NACHMANOFF/ZINMAN

E O 11652: ADS, DECLAS 12/31/77

TAGS: EAID, EFIN

SUBJ: ADB LENDING RATE

1. AT APRIL 14 MEETING OF BOARD OF DIRECTORS, U.S. DIRECTOR VOICE SUPPORT FOR STATEMENT MADE BY ADB PRESIDENT TO EFFECT THAT BANK'S LENDING RATE NEED NOT BE CHANGED NOW, DESPITE RECENT DOWARD REVISION OF WORLD BANK'S LENDING RATE, AND THAT PRESIDENT DID NOT FEEL IT APPROPRIATE TO RECOMMEND ANY REVISION IN BANK'S RATE NOW. FRENCH DIRECTOR INDICATED THAT, UPON BEING NOTIFIED OF PRESIDENT'S STATEMENT, GOVERNMENTS HE REPRESENTS MAY WISH TO RECOMMEND THAT BOARD OF DIRECTORS HOLD FORMAL DISCUSSION OF SUBJECT AT THIS TIME.

2. FOLLOWING IS VERBATIM TEXT OF STATEMENT BY PRESIDENT:
QUOTE

THE BOARD CONDUCTED A REVIEW OF THE FINANCIAL POLICIES OF THE BANK LAST FEBRUARY. AFTER EXAMINING, INTER ALIA,
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THE PRINCIPLES THAT SHOULD GOVERN THE BANK'S LENDING RATE, A RATE OF 8.70 PERCENT WAS DECIDED UPON EFFECTIVE 1ST JANUARY 1977.

DURING THE DISCUSSIONS THAT PROCEEDED THE DECISION, THERE WAS GENERAL AGREEMENT ON CERTAIN POINTS THAT I WOULD SUMMARIZE AS FOLLOWS IN MY OWN WORDS:

(A) OUR LENDING RATE SHOULD BE REVIEWED AND SHOULD

BE SET AT THE BEGINNING OF EACH YEAR BASED ON OUR NORMALIZED BORROWING COSTS IN THE PRECEDING TWELVE MONTHS AND ON CONSIDERATIONS RELEVANT TO THIS BANK'S OPERATIONS AND FINANCIAL POSITION.

(B) ONCE WE HAVE TAKEN STOCK OF OUR FINANCIAL SITUATION AND COME TO A FINDING ON THE APPROPRIATE LENDING RATE, WE SHOULD BASE REVIEWS OF THE RATE ON ANY CHANGES IN OUR OWN FINANCIAL SITUATION AND PROSPECTS.

(C) IT IS NOT DESIRABLE TO FREQUENTLY CHANGE THE BANK'S LENDING RATE; THE RATE SET AT THE BEGINNING OF THE YEAR SHOULD HOLD GOOD FOR THE YEAR UNLESS IMPORTANT DEVELOPMENTS CALL FOR A REVIEW IN THE INTERVENING PERIOD; AND

(D) THE BANK'S LENDING RATE SHOULD NOT MECHANICALLY FOLLOW THE WORLD BANK'S LENDING RATE AND SHOULD NOT BE LINKED WITH THE WORLD BANK RATE BY SPECIFIC DIFFERENTIALS. THE EMPHASIS IN THE APPROACH ADOPTED BY THE BOARD WAS THAT THE BANK SHOULD HAVE ITS OWN INDEPENDENT BASIS FOR DETERMINING ITS LENDING RATE AND THAT, ONCE FIXED THE RATE SHOULD NOT BE CHANGED FREQUENTLY.

AN IMPORTANT DEVELOPMENT HAS TAKEN PLACE RECENTLY IN LIGHT OF WHICH I AM MAKING THIS STATEMENT. EFFECTIVE 1ST APRIL 1977 THE WORLD BANK HAS CHANGED ITS LENDING RATE FROM 8.50 PERCENT TO 8.20 PERCENT.

AS THE BOARD IS AWARE, THE POLICY OF THE WORLD BANK SINCE LAST YEAR HAS BEEN TO DETERMINE ITS LENDING RATE EVERY QUARTER ON THE AUTOMATIC APPLICATION OF A FORMULA, THE COMPONENTS OF WHICH ARE ITS NORMAL-LIMITED OFFICIAL USE

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IZED AND SMOOTHED BORROWING COSTS FOR THE PREVIOUS FOUR QUARTERS AND A POSITIVE SPREAD. THE WORLD BANK'S REVISION OF ITS LENDING RATE SEEMS TO HAVE BEEN DUE LARGELY TO THE IMPACT OF THE BORROWINGS (ABOUT \$800 MILLION EQUIVALENT) THAT IT HAS BEEN ABLE TO MAKE IN THE FIRST QUARTER OF THIS YEAR ON RELATIVELY FAVORABLE TERMS; AS YOU WILL RECALL, THE WORLD BANK FORMULA PROVIDES FOR A WEIGHTAGE OF 40 PERCENT, 30 PERCENT, 20 PERCENT AND 10 PERCENT, RESPECTIVELY, FOR EACH QUARTER COUNTING BACKWARDS FROM THE LATEST. HAVING CALLED TO YOUR ATTENTION THIS IMPORTANT DEVELOPMENT RELATING TO THE WORLD BANK'S LENDING RATE, I MUST TURN MY ATTENTION TOWHETHER, IN APPLYING THE

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FM AMEMBASSY MANILA
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DECISIONS ADOPTED BY THE BOARD ON 3RD MARCH, ANY CHANGE
IS CALLED FOR IN THE BANK'S LENDING RATE AT THIS
STAGE.

SO FAR AS BORROWINGS ARE CONCERNED, SINCE 3RD MARCH,
APART FROM THE ROLL OVER OF 2-YEAR BONDS AMOUNTING TO
\$70 MILLION, THE BANK HAS MADE ONLY ONE BORROWING, THAT
OF DEUTSCHEMARK, AMOUNTING TO ABOUT \$42 MILLION EQUIV-
ALENT WITH AN AVERAGE LIFE OF 8 YEARS. THE COST OF
THIS BORROWING WAS 7.33 PERCENT WHICH IS FAVORABLE TO
THE BANK. THE AVERAGE LIFE OF THE BORROWING, HOWEVER,
IS SOMEWHAT LOWER THAN THE AVERAGE OF 9 - 9-1/2 YEARS
MENTIONED AS DESIRABLE IN THE WORKING PAPER REVIEWING
THE FINANCIAL POLICIES OF THE BANK. THIS SINGLE BOR-
ROWING DOES NOT OFFER SUFFICIENT GROUND TO CONCLUDE
THAT THERE IS LIKELY TO BE A SUBSTANTIAL CHANGE IN
THE COST OF THE BANK'S BORROWINGS FORM THAT ANTICIPATED
AND WHICH FORMED THE BASIS FOR THE SETTING OF THE LEND-
ING RATE ON 3RD MARCH.

OF THE OTHER FACTORS THAT ENTERED INTO OUR
FINANCIAL POLICY REVIEW, ONE FACTOR, NAMELY DISBURSE-
MENTS, HAVE BEEN COMMENTED UPON BY SOME BOARD MEMBERS
RECENTLY. THEY EXPRESSED THEIR ANXIETY ABOUT THE
RATHER SLOW RATE AT WHICH OUR DISBURSEMENTS HAVE
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BEEN BUILDING UP DURING THE FIRST THREE MONTHS OF THIS
YEAR. I HAVE ALSO BEEN CONCERNED ABOUT THIS AND HAVE
EXAMINED THE MATTER. THE LEVEL OF DISBURSEMENT IN THE
FIRST QUARTER OF THIS YEAR WERE A BIT LOW IN THE LIGHT
OF THE PROJECTIONS FOR THE YEAR. HOWEVER, WE HAVE

NOTICED THAT DISBURSEMENTS HAVE PICKED-UP IN RECENT WEEKS. I AM ADVISED BY THE PROJECTS DEPARTMENTS THAT THE LEVEL OF DISBURSEMENTS PROJECTED FOR THE YEAR CAN BE REACHED PROVIDED THE MATTER IS KEPT UNDER CONSTANT REVIEW WITH APPROPRIATE STEPS BEING TAKEN BY THE STAFF AS AND WHEN NECESSARY.

SINCE 3RD MARCH WHEN WE DECIDED OUR PRESENT LENDING RATE, NO NEW FACTORS HAVE, IN MY VIEW, EMERGED THAT WOULD CHANGE THE BASIC DATA ON WHICH OUR LENDING RATE WAS DECIDED. THE DEUTSCHEMARK ISSUE SEEMS TO INDICATE SOME SOFTENING OF THE CAPITAL MARKETS AND IT MAY SEEM SUPPORTED BY THE WORLD BANK EXPERIENCE OF RECENT MONTHS.

A QUESTION MAY ALSO BE ASKED WHY WE SHOULD NOT LOOK AT THE NORMALIZED BORROWING COST OF TWELVE MONTHS PRECEDING 1ST APRIL 1977. I FEEL THAT THIS WOULD BE DISTORTIVE IN EFFECT, IN VIEW OF THE VERY LIMITED BORROWING OPERATION IN THE FIRST QUARTER OF 1977. IF OUR BORROWING IN THE FIRST QUARTER OF 1977 IS TO BE TAKEN INTO ACCOUNT, A BETTER WAY WOULD BE TO SEE HOW DIFFERENT THE 1ST JANUARY 1976 TO 31ST MARCH 1977 PICTURE WOULD BE AS COMPARED WITH THE 1ST JANUARY TO 31 DECEMBER 1976 PICTURE, SO FAR AS OUR BORROWING COSTS ARE CONCERNED. THE NORMALIZED COST PER ANNUM OF BORROWING FOR THE PERIOD 1ST JANUARY 1976 TO 31ST MARCH 1977 WOULD BE 8.34 PERCENT AS AGAINST 8.43 PERCENT FOR 1ST JANUARY 1976 TO 31ST DECEMBER 1976.

ALL THESE CONSIDERATIONS LEAD ME TO THE CONCLUSION THAT OUR LENDING RATE DECIDED AS RECENTLY AS 3RD MARCH ON THE BASIS OF DETAILED DISCUSSION BY THE BOARD NEED NOT BE CHANGED NOW.

I, THEREFORE, DO NOT FEEL IT APPROPRIATE TO RECOMMEND LIMITED OFFICIAL USE

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RECOMMEND TO THE BOARD THAT IT REVISE THE LENDING RATE OF THE BANK NOW. WE MAY TAKE STOCK OF DEVELOPMENTS THAT MAY OCCUR IN THE SECOND QUARTER OF THIS YEAR AND REVIEW THE MATTER AGAIN IN DUE COURSE IF NECESSARY.

UNQUOTE.

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